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UNCLAS SECTION 01 OF 03 LUSAKA 000805

SENSITIVE
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PASS TO COMMERCE FOR 4510/ITA/IEP/ANESA/OA AND STATE FOR
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SUBJECT: DIALING UP ZAMBIA'S TELECOMMUNICATIONS SECTOR

REF: A. LUSAKA 705
[1](#)B. LUSAKA 259
[1](#)C. LUSAKA 275
[1](#)D. LUSAKA 367
[1](#)E. LUSAKA 638

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SUMMARY

[1](#)1. (U) Zambia's under-developed telecommunications sector will undergo fundamental change in 2010. The Information and Communications Technology (ITC) Act enacted into law August 26, 2009, endowed the Zambia Information and Communication Technology Authority with broad regulatory powers and mandated that it develop a unified telecommunications licensing regime, penalize service providers for using unapproved tariffs, and implement an Internet "Universal Access Project." Although the the Zambian government plans to privatize up to 75 percent of state-run Zambia Telecommunications Company (ZAMTEL) by June 2010, allegations of corruption raised concerns as to whether privatization will meet its intended goal. With the domestic cellular phone penetration rate at 32 percent and fixed-line telephony and Internet at less than one percent, the sector has considerable room for growth. Although the ICT Act reform and ZAMTEL's privatization could contribute to Zambia's economic growth and development, many challenges, including high infrastructure costs, interconnectivity issues, ZAMTEL's continued control of the fixed-line and cellular International Gateway, and state-run Zambia Electricity Supply Corporation's dominance over Zambia's fiber optic cable network, remain. END SUMMARY.

TELECOM'S LAY OF THE LAND...AND SKY

[1](#)2. (SBU) With cellular phone penetration rate at 32 percent and fixed-line telephony and Internet penetration rates at less than one percent, Zambia's telecommunications sector has considerable room for growth. Low penetration rates have been exacerbated by monopolistic conditions in which few players dominate most telecommunications services. State-run Zambia Telecommunications Company, Ltd. (ZAMTEL) monopolizes fixed-line telephony. Kuwait-based Zain, South African-based MTN, and ZAMTEL subsidiary CELL Z subsidiary are the country's exclusive cellular service providers. (NOTE: Minister of Communications and Transport Geoffrey Lungwangwa told Ambassador in early 2009 the GRZ had decided not to issue additional cellular licenses beyond the existing three.

END NOTE.) Cellular and fixed-line service providers connect use ZAMTEL's International Gateway (IGW) exclusively to access global networks. State-run utility Zambia Electricity Supply Corporation, Ltd. (ZESCO) dominates data communications by controlling most of Zambia's fiber optic networks with limited Internet access via Namibia. ZAMTEL's own nascent fiber optic network connects to the Internet via microwave connection in Botswana; however, usage is limited.

¶3. (SBU) ZAMTEL is the country's sole provider of fixed-line commercial and residential voice communications with estimated annual revenues of over USD 100 million. Its CELL Z mobile phone subsidiary utilizes 2.5G GSM wireless networks. ZAMTEL also owns the Mwembeshi Satellite Earth Station (Zambia's IGW) and a Lusaka-based fiber optic network dubbed the "Metropolitan Project." The USD 48 million project led to cost overruns that nearly bankrupted the company and ultimately triggered its privatization. ZAMTEL plans to link its fiber optic network with Tanzania's East African Submarine Cable System (EASSy) and improve network utilization; however, these plans are on hold until the company has sufficient funding. ZAMTEL is an EASSy shareholder; it is also considering a link to the recently (July 2009) inaugurated SEACOM cable in Tanzania.

¶4. (U) ZESCO has a nationwide fiber optic network known as "FibreCom Broadband" capable of carrying data communications. ZESCO laid 1,700 kilometers of fiber optic cable in 2008-09 linking major urban areas at a cost of USD 11 million. During a second phase set to begin next year, ZESCO plans to lay an additional 5,000 kilometers of the cable and connect FibreCom to the Internet backbone via Botswana and DR Congo. Although the FibreCom network's primary function is to connect ZESCO offices nationwide, ZESCO leases excess capacity to ZAMTEL, Copperbelt Energy Corporation PLC,

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Zambia's nine domestic Internet service providers -- including AfriConnect, Zamnet, and CopperNet -- and cellular service providers. It also provides network services to Zambian government (GRZ) agencies such as the Zambia Revenue Authority and Road Transport and Safety Agency.

¶5. (U) The Zambia Information and Communication Technology Authority (ZICTA) licenses and regulates Zambia's telecommunications sector, including fiber optic networks, satellite networks, cellular networks, fixed-line communications, Internet and data services, television services, and radio spectrum. ZICTA Acting CEO Patrick Mutimushi told EconOff October 29 that the agency has high hopes for nationwide public high-speed Internet access. He said that ZICTA plans to accelerate Internet penetration through its "Universal Access Project" by building a nationwide network of community centers (telecenters) linked to ZESCO's and ZAMTEL's fiber optic networks.

TELECOM REFORM PROMISES BIG CHANGES

¶6. (U) The Information and Communications Technology (ICT) Act passed into law August 26, 2009, enacted several key sector reforms. Perhaps most interesting for investors, the law mandates that ZICTA (formerly the Communications Authority of Zambia) develop a unified licensing regime for all telecommunications services. It also endowed ZICTA with broad regulatory powers, including the authority to regulate IGW fees and tariffs. Although it stops short of opening up the IGW to competition, the law prevents ZAMTEL from leveraging its IGW monopoly to overcharge customers, and it empowers ZICTA to penalize service providers for using unapproved tariffs. The law did not grant ZICTA the authority to regulate ZESCO's network, allowing ZESCO to continue setting rates for service providers that use FibreCom. The law further established the ZICTA's yet-to-be-funded "Universal Access Project."

¶7. (U) Minister of Communications and Transport Lungwangwa stated that the ICT Act will help Zambia attract foreign telecommunications investment by eliminating bureaucracy and reducing costs. He also affirmed that the law will protect service providers and consumers by improving transparency and accountability. He expressed concern in September over the slow pace of transformation in Zambia's Internet and mobile communications sectors but was optimistic that ZAMTEL's privatization would lead to increased competition -- by injecting private investment into the sector -- and reduced costs (ref A). ZICTA's Mutimushi was optimistic that sector reforms would eventually lead to better services, lower fees, and higher penetration rates.

ZAMTEL PRIVATIZING...BUT WHO'S BUYING?

¶8. (U) The GRZ will sell up to 75 percent of ZAMTEL next year to private investors to keep it financially solvent. The Ministry of Communications and Transport tasked the Zambia Development Agency (ZDA) with overseeing the privatization and signed a Memorandum of Understanding (MoU) with Cayman Islands-based firm RP Capital Advisors, Ltd. to evaluate ZAMTEL's assets and execute its sale (see para. 10 regarding Minister Dora Siliya's illegal contract award to RP Capital).

¶9. (U) The ZDA opened the bidding process to established telecommunications firms in August and announced eight finalists October 21, including Russia-based Altimio Holdings/Vimpelcom; Indian telecoms Bharat Sanchar Nigam Limited (BSNL) and Majanagar Telephone Nigam; Libya's LAP Greencom; Portugal Telecom; South Africa's Telkom SA; Egypt's Orascom Telecom Holdings; and Angola's UNITEL. The GRZ invited the finalists to participate in a due diligence process November 2 - December 23 in which they may bid on between 51 and 75 percent ownership in ZAMTEL. The ZDA will announce the winning bidder and conclude the sale by June ¶2010.

PRIVATIZATION RAISES CORRUPTION CONCERNS

¶10. (SBU) Allegations of nepotism and corruption involving
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the ZAMTEL sale raised questions as to whether privatization will truly achieve efficiencies. Some opposition leaders charged the government with nepotism for contracting with RP Capital -- a firm connected to President Rupiah Banda's son Henry -- to broker the sale. Critics also accused the GRZ of paying RP Capital its fee -- USD 2 million -- for brokering the deal before its completion. Then-Minister of Communications and Transport Dora Siliya resigned after a tribunal found Siliya guilty of breaching the constitution for unilaterally awarding the contract to RP Capital without due diligence. After the Lusaka High Court overturned the tribunal's decision June 16, President Banda appointed her Minister of Education (refs B-E).

COMMENT

¶11. (SBU) A unified licensing regime, ZAMTEL's privatization, and ZICTA's regulation of Zambia's International Gateways and telecom tariffs are welcome developments. GRZ efforts to construct a nationwide fiber optic network with improved links to the outside world and widely accessible to the public would give Zambia the technology infrastructure it needs for economic growth and development. Unfortunately, many challenges, including the high cost of completing its nationwide fiber optic network,

extending it the "last mile" to businesses and consumers, and connecting it with global networks, remain. In addition, ZAMTEL's continued monopoly over Zambia's fixed-line and cellular IGW and ZESCO's dominance over its nationwide fiber optic cable network is unlikely to bring down rates substantially. END COMMENT.
BOOTH